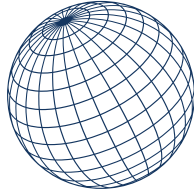


DIGITAL MONEY, MARKETS & PAYMENTS SERIES

#1: FOREIGN EXCHANGE (FX) SPOT MARKETS

What are the FX Markets?



A global marketplace where currencies are traded against each other

Unlike stock exchanges, FX operates electronically with no centralized physical location

Why is FX Important?

- Facilitates international trade and investments by enabling currency conversion for businesses, investors & travelers
- Allows companies to conduct cross-border transactions efficiently

Size and Liquidity

According to the Bank for International Settlements (BIS) 2022 survey, global FX trading averaged about **\$7.5 trillion per day (includes all FX instruments)** in April 2022

- **14% increase** from the **\$6.6 trillion daily volume** recorded in 2019
- **FX markets are the largest financial market in the world in terms of trading volume, liquidity, and value**

How Does Trading Occur?



Dominated by a few major currencies.

The U.S. dollar (USD) is the linchpin of the market—it was on one side of 88% of all currency trades in 2022

The next most traded currencies:

- Euro (EUR) (~31% of trades)
- Japanese yen (JPY) (~17%)
- British pound (GBP) (~13%)

Each currency retains the same rankings and roughly the same market share as in the previous survey



Trades occur continuously 24 hours/day, 5 days a week, following global financial centers like Sydney, Hong Kong, Tokyo, London, and New York



Currencies are traded in pairs (e.g., EUR/USD, GBP/USD), representing the relative value of one currency against another



Price quotes given as bid (buy price) and ask (sell price)



Spread (difference between bid and ask) represents trading cost

Who are the Major Participants?

>90% of FX markets are driven by financial institutions

- Major global banks account for **46%** of daily turnover
- **~48%** of FX volume involves “other financial institutions,” a category that includes smaller and regional banks, hedge funds, proprietary trading firms (high-frequency traders), investment managers (like pension or mutual funds), and even central banks and sovereign wealth funds (SWFs)

Non-financial institutions represent roughly 6% of turnover

- Includes multinational corporations, importers/exporters, and government entities
- Players use FX markets mainly to hedge currency risk or exchange currencies for trade and investment purposes, rather than for speculation

Cryptocurrency integration

- Some platforms now offer trading between traditional currencies and crypto (e.g., Bitcoin/USD)
- The entire crypto market sees an order of **\$100 billion in daily trading volume**
- Can swing several percent or more in a single day